

Liquidity, Gains, and Capital Relief in the Mortgage Portfolio

The mortgage portfolio is an excellent place for financial institutions to find needed liquidity, gains, or capital relief. For decades, Fannie Mae and Freddie Mac have been regular buyers of seasoned bulk pools of portfolio mortgages and have re-affirmed their commitment to these transactions over the past couple of weeks. For institutions considering how to adapt to the new operating environment, an analysis of the mortgage portfolio should be part of your plan.

Overview

Just about every financial institution in the country is re-evaluating its strategic plans for 2020. As the first quarter closes and we begin the second, many banks and credit unions will be looking for sources of liquidity, gains, and/or capital relief. At a minimum, they will want to make preliminary plans in case more significant balance sheet changes are needed as the year unfolds.

Seasoned mortgages are dependable and price-efficient sources of liquidity for banks and credit unions. Fannie Mae and Freddie Mac have been consistent buyers of conforming balance mortgages, in good markets and bad. Consideration of a sale or securitization of seasoned mortgages should be part of your institution's plan for managing through what is expected to be a difficult operating environment for the near future.

A sale or securitization of loans requires planning, time, and some specific resources, but FHN Financial Capital Assets Corp. (Capital Assets) has developed a process that accomplishes numerous objectives for our customers:

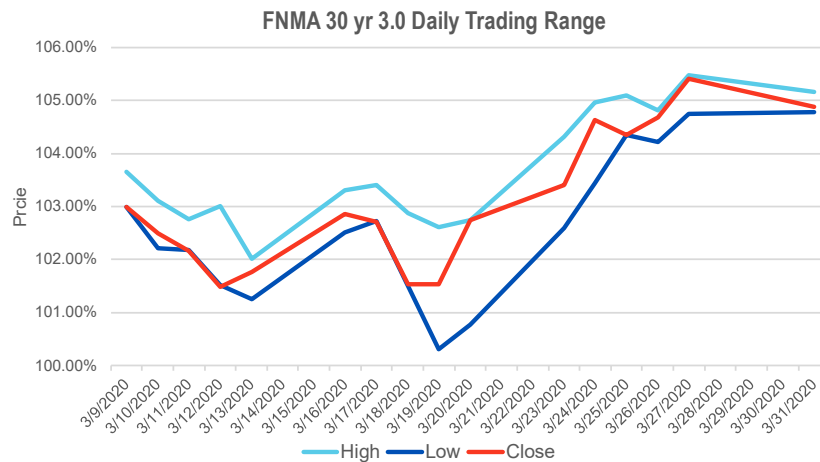
- Detailed analytics in Portfolio Performance Analysis (PPA) that provide a thorough profile of the mortgage portfolio
- Range of strategy options for potential execution that can meet a variety of objectives
- Sample due diligence process that can shorten the time to lock price — imperative in a fluctuating market environment like this one
- Experienced Capital Assets team to complete due diligence and delivery, minimizing internal resources needed to complete a transaction
- Long-standing relationships with Fannie Mae and Freddie Mac that ensure a seamless transaction

Mitchell Redd
901.435.8622
mitchell.redd@fhnfinancial.com

FHNFINANCIAL.COM
800.456.5460

Market Environment

While economic conditions are uncertain and many assets have seen significant reduction in liquidity over the past few weeks, seasoned bulk transactions with Fannie and Freddie have not only maintained their liquidity, but pricing is very strong. Levels of mortgage-backed securities (MBS) are the primary factor in determining pricing seasoned pools of mortgages. The below chart not only illustrates the wide price variances of MBS over the past couple of weeks, but point to the higher absolute prices in recent days since purchases by the Federal Reserve have become more pronounced.



Next Steps

Below is a summary of the steps that need to be taken in order to put your institution in the best position to execute a seasoned bulk mortgage transaction with Fannie or Freddie, whether you need to do it now or be prepared for future needs.

- **Loan Data File** — Send Capital Assets a quarter-end loan data file for your mortgage portfolio.
- **PPA** — Capital Assets will run a Mortgage PPA to provide a breadth of analytics on the composition, liquidity, value, interest rate risk, collateral, credit risk, and prepayment profile of your loans.
- **Strategies** — Using the same loan data as the PPA, Capital Assets will illustrate a variety of potential strategies based on the profile of your portfolio and your strategic objectives, whether that is liquidity, maximizing gains, capital relief, or reduction of interest rate risk.
- **Sample Due Diligence** — Based on the chosen strategy, Capital Assets will arrange a review of selected imaged files in order to confirm projections of agency eligibility beyond the loan data.
- **Price Lock** — Once the sample due diligence is complete, your institution will be in position to lock price on the selected pool of loans immediately, or press the pause button and wait until you have better clarity of the needed time to execute. Either way, at this point you will be able to lock price on a transaction at a time of your choosing and not have to wait for completion of the deal.
- **Finalize Due Diligence** — Once your institution decides to move forward on a transaction and locks price, Capital Assets will complete due diligence on 100% of the loans. This process will eliminate loans that do not meet agency requirements.
- **Loan delivery** — Once due diligence is completed, Capital Assets works with you to ensure all notes and collateral are delivered to the custodian and appropriate assignments and allonges are executed.
- **Closing/Settlement** — Capital Assets works with you and the agency to determine a settlement date, and you will begin the process of servicing the loans to Fannie or Freddie.

If you have questions or would like to learn more about strategic options for your mortgage portfolio, contact your FHN Financial sales rep or Capital Assets directly at 800.456.5460.

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